EPA'S ECONOMIC INCENTIVE PROGRAM GUIDANCE -

HISTORY, IMPLEMENTATION, AND CURRENT ISSUES
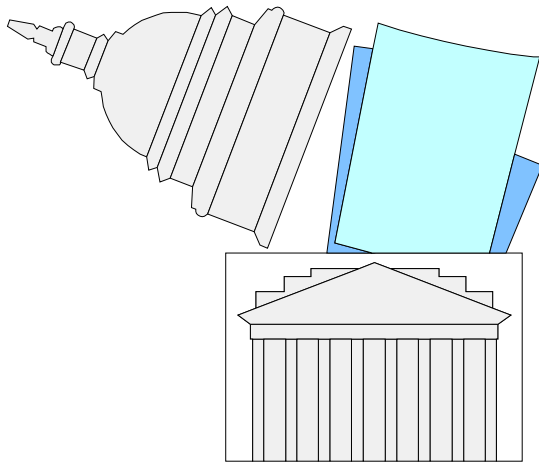
Briefing for AQM Subcommittee

January 24, 2006

Emission Trading Began in the 70's

- 70's: "Bubble policy", netting, averaging
- '86: Emissions Trading Policy Statement
  - Introduced source-specific emission caps
  - Birth of fundamental principles for emission reductions
    - Permanent: assured for life of corresponding increase
    - Surplus: reductions beyond those already required
    - Quantifiable: reliable, replicable measurement
    - Enforceable: violations/violators/penalties are understood
  - Origins of "environmental benefit"

1990 Clean Air Act Amendments

- Creates Acid Rain Program (cap & trade)
- Calls for development of EIP rule
  - Extreme areas that miss milestones <u>must</u> have EIPs
  - Other areas <u>may</u> have EIPs

1994 EIP rule: Four EIP types

- Market response strategies (emission fees)

- Emission limiting strategies (emissions trading)

- Directionally sound (no SIP credit, but "a nice thing to do")

- Transportation control measures

Mid-90's: Open Market Trading

- Pushed by Presidential gov't reinvention efforts
- Model rule proposed in 1995
  - **Environmentalists**: too loose, not enough safeguards, won't reduce emissions
  - **Industry**: too restrictive, inflexible, a hassle
  - **States**: mixed reviews
- Did not finalize – decided to issue guidance

1995 - 2001: A EIP Odyssey

- ETPS, 1994 rule, OMT guidance on the street
- $PM_{2.5}/O_3$ NAAQS coming, new science & policies
- Comprehensive EIP guidance needed
- Draft EIP guidance issued in '99
  - extensive discussion with NEJAC
  - Available for public review and comment
- Final guidance issued in January 2001

"Improving Air Quality with Economic Incentive Programs"

- Consolidates/updates all earlier guidance

- Addresses new issues

- Guidance will help:
  - <u>States</u> choose EIPs that best fit their needs
  - <u>industry</u> & the <u>public</u> understand EIPs, their benefits, & how they can aid in their development/implementation

Four main types of EIPs:

- Emission trading programs (includes averaging, cap & trade, OMT)
- Financial mechanisms (fees, subsidies)
- Clean air investment funds (provides cost relief)
- Public information programs (education, product labeling & certification)
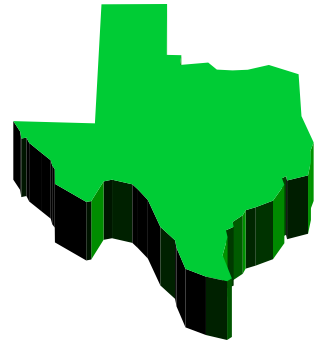
Our Intentions for the EIP Guidance

- A "tool kit" for common sense, cost effective emissions reduction programs
- Provide a framework to help States, local areas, or companies make innovative ideas work
- Gives mobile sources and "non-traditional" sources a place to play
- A "living document" – will evolve as we learn from others' experience

Putting the EIP to Use: The Houston SIP

- Mass emissions cap & trade program
  - Covers NO_X sources that emit $\geq$10 tpy
  - Key part of attainment demo
- Discrete emission reduction credit program
  - Covers PM_{10}, SO_X, NO_X O_3, CO
  - Statewide, includes mobile sources
- Texas Emission Reduction Program
  - Provides cost relief for sources in the MECT program
  - Sources pay $75K/ton of NO_X; funds pay for vehicle/construction equipment retrofits

- Emission Reduction Credit Program
  - Covers nonattainment pollutants and their precursors
  - Statewide, includes mobile sources

- Highly-Reactive Volatile Organic Compound Emissions Cap and Trade Program
  - Covers vent gas streams, flares, and cooling tower heat exchange systems that emit > ten tons per year of HRVOCs
  - HRVOCs are ethylene, propylene, 1,3-butadiene, and all isomers of butenes
  - Key part of revised attainment demo

Putting the EIP to Use: IdleAire

- Trucks idle at truck stops for 6-8 hours – uncontrolled NO_X emissions
- IdleAire supplies HVAC, electricity, etc. – end to idling emissions
- Working with IdleAire, OTAQ to make this work
- Issues:
  - Quantification
  - emissions inventory

Most Recent Issues

- ## More emphasis on SIP credit
  - Various Guidances released
- ## Regional Programs- NOx SIP Call and CAIR trading
  - How do these mesh with local programs?
- ## More Strategies for Mobile Source Reductions